



Budgeting for Assessors

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Overview

- Budgeting Basics
- Fund Structure (or Fund Types)
- Budget Structure (Accounting Structure)
- Budget Calendar and Process
- Fiscal Limits (Budget and Tax Controls)
- Gross to New AV
- Local Officials Roles in Process
- Legislation



Background

- My Background
- History of DLGF:
 - Originally named State Board of Tax Commissioners.
 - Established in 1891 to oversee assessment and collection of property taxes.
 - First Tax Commission of its kind in the country.
 - First board was the Governor, Auditor of State, and Secretary of State.
 - Reorganized by 1919 General Assembly to standardize methods of tax assessment and limit the powers of local governments to set tax levies and issue bonds.
 - Now named DLGF and organized under one commissioner appointed by the Governor.



Budgeting Basics



Budgeting Terms

- Definition of “Budget”
 - A budget is a financial plan that includes both revenues and expenditures for a specified period of time. It’s a legally binding financial plan.
- Purpose of Budgeting
 - A budget allocates financial resources within the government to fund the operating and capital plans. The budget should be a communications device for officials to openly discuss the priorities with the public.



Budgeting Terms

- Definition of Appropriation
 - The legal authority from a fiscal body to spend or enter into obligations. That authority is within certain controls, such as the amount within a fund, the amount by a department, and a limited amount within a certain type of expense.



Budgeting Terms

- Definition of “Net Assessed Value”
 - The “net” total taxable property value in a jurisdiction. This is the total value of all property less any exempt property minus any deductions such as a homeowners deduction. Assessed value is the “tax base” of a geographic area.
 - Gross assessed value minus deductions equals “net assessed value.”



Budgeting Terms

- Property Tax Rate
 - A ratio between the net assessed value and the tax levy. The tax rate multiplied times the assessed value (per \$100) results in the amount of taxes the unit will charge (levy).
- Levy = Tax Rate X $\frac{\text{Net Assessed Value}}{\$100}$



Budgeting Terms

- Property Tax Levy
 1. The amount of tax a government charges property owners or,
 2. The amount of tax revenue generated for government from taxable property.
- Levy = Tax Rate X (Net Assessed Value)
\$100



Budgeting Terms

- Maximum Property Tax Levy or “Max Levy”:
 - Property tax levies to local governments are allowed to increase no more than the 6 year average increase in non-farm personal income. This increase is usually between 2% and 4%.
 - Also inappropriately referred to as the “frozen levy.”



Basics of Budgeting

- Budget Controls
 - State level of control is by fund and total for tax supported funds.
 - Control at the local level is set by ordinance or resolution and is established at the fund, department, and major classification.
- Penalties – IC 6-1.1-18-10
 - If the proper officer makes an excessive appropriation they are guilty of malfeasance in office and liable for 125% of the amount.



Forms of Budgeting

- Line Item Budgeting
- Zero Based Budgeting
- Program Budgeting
- Budgeting by Objectives
- Performance Based Budgeting



Funds



Funds

- A fund is a separate account for specific revenues and expense.
 - Intent is to separate dedicated fees and charges and use only for intended purpose.
- Types of Funds
 - General Fund
 - Includes all operating costs and revenues not required to be included in another fund.
 - This fund is for the general provision of government services and not designated for specific purposes.
 - Funds most activities of the government.



Funds

- Special Revenue Funds
 - Used to account for revenues reserved or designated for specific purposes
 - User Fee Funds
 - Accident Report, Gun Permit, and Law Enforcement Training
 - State (Law Enforcement) Equitable Share
 - Federal (Law Enforcement) Equitable Share
 - Deferral Fee Fund



Funds

- Capital Funds
 - Primarily used for acquisition or construction of fixed assets or equipment including fleet.
 - Construction Fund from bond proceeds.
 - Cumulative Capital Funds can be used to accumulate cash for future planned expense. Also may be used to purchase equipment, vehicles, land, and buildings.
- Debt Service Funds
 - Used to make principal and interest payments.
 - Usually supported by property tax or income tax.



Budget Structure

- Budget and accounting is organized in a structure by department, fund, and major classification (object or character).
- Example:
 - Agency Police Dept
 - Fund General
 - Major Class Personal Services
 - Supplies
 - Other Services and Obligations
 - Capital



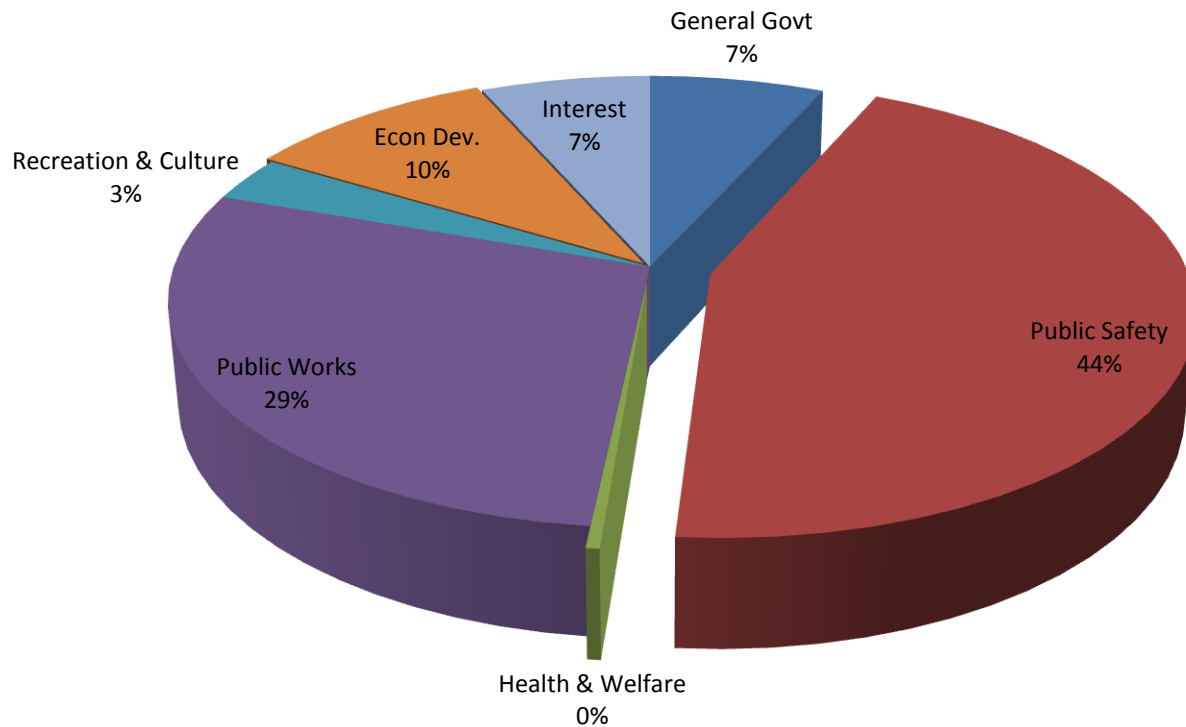
Budget Structure

- Budgets are structured to provide legal controls and accountability.
 - Designed so money is used by and for what it was intended.
 - Provide information to the public.
 - Guide and control operations (plan).
 - Provides units with the ability to amend original budget to adjust for changing priorities and emergencies.



Where The Dollars Go

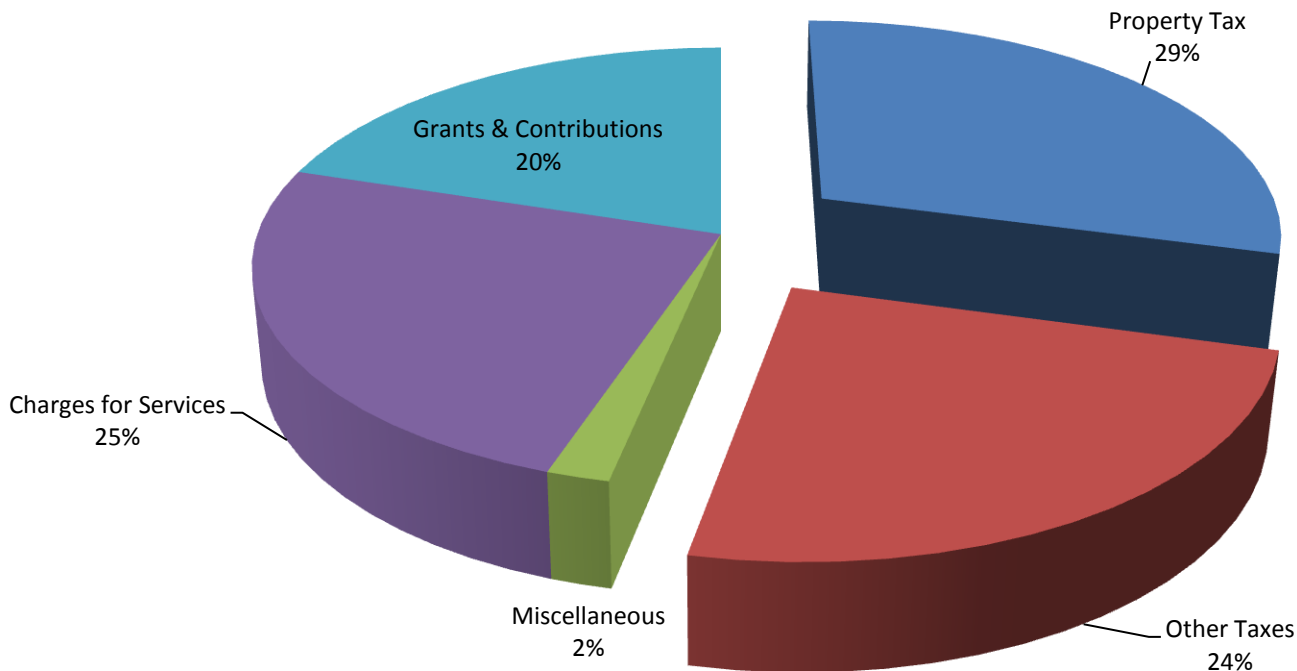
Indianapolis 2012 Budget





Where The Dollars Come From

2012 Indianapolis Revenues





Calendars



Calendars

- Budgets are prepared according to a budget calendar.
- A budget calendar is a schedule of key events or dates to follow when preparing or adopting a budget.
- Many of those dates are statutory deadlines meaning, noncompliance may result in a budget or tax levy being “continued.”
- Main goal of calendars is to keep the billing of property taxes on time so taxes are paid and distributed on time.

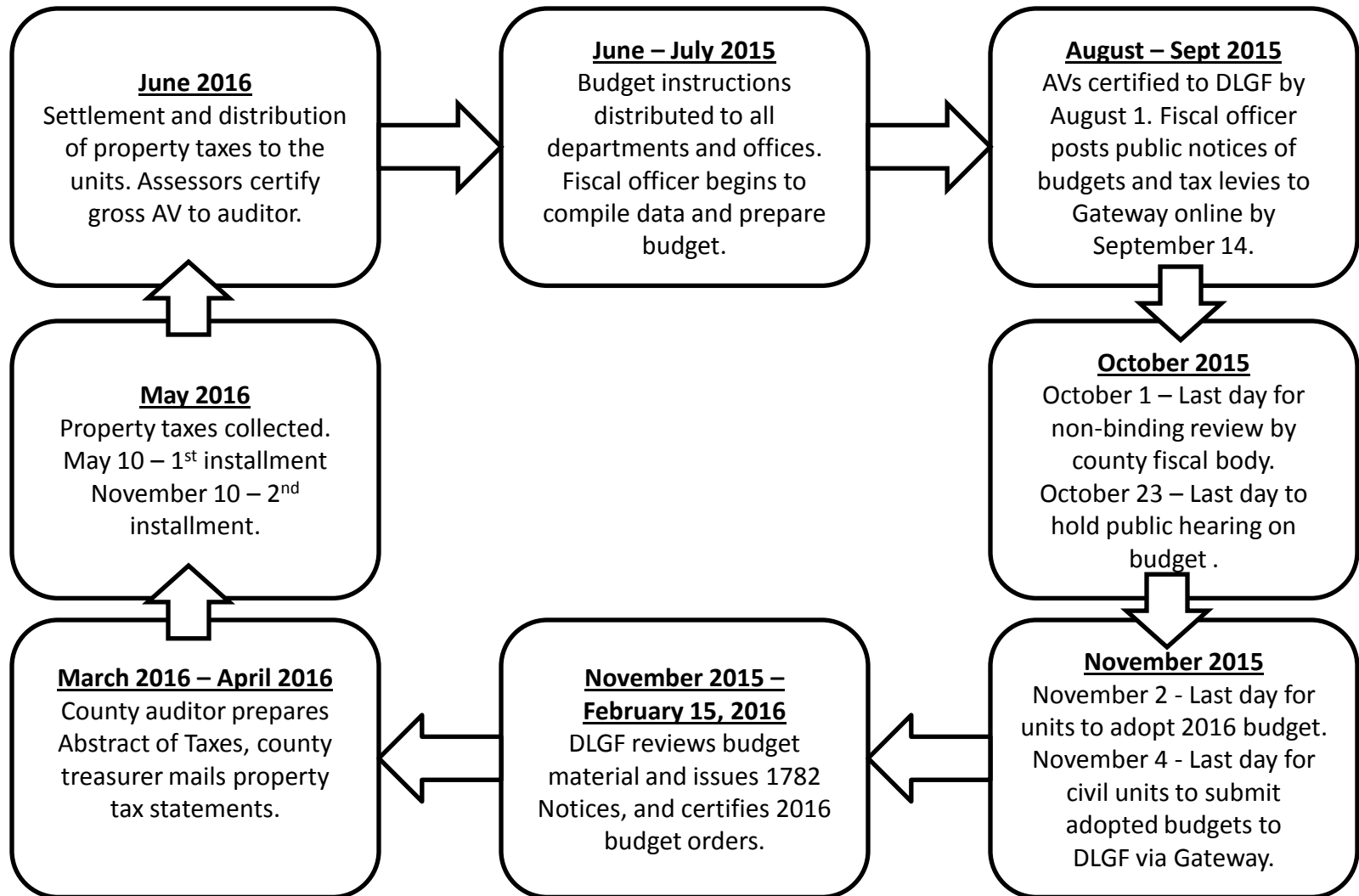


Calendars

- Key dates (2015 pay 2016 Calendar):
 - Budgets, tax rates, and levies adopted by fiscal body no later than November 3.
 - DLGF certifies budgets, rates, and tax levies by February 15.
 - March 15 is last day for county auditor to deliver abstract of property, assessment, taxes, and deductions to Auditor of State and county treasurer.
 - County treasurer mails property tax bills at least 15 business days before due date (IC 6-1.1-22-8.1(c)).
 - May 10 is deadline to pay property tax bills.
 - June 30 is deadline to distribute taxes to local government units.



Budget Process Overview





Calendars

- Both assessment and budget are dependent upon the calendar for success.
- The sequence of events and tasks is critical.
- Incompletion means property taxes are not distributed to the governmental units on time:
 - May force short term borrowing until distribution;
 - Units could face overdrafts;
 - Units could default on debt payments;
 - Could lead to credit downgrades.



Fiscal Limits



Fiscal Limits

- Budgets are limited to the amount of available fund balances.
 - Fund balance = cash minus obligations
- Property tax levies are “controlled” and can only grow by a 2% to 5% average per year with few exceptions.
- Property tax bills are limited by circuit breaker credits (or tax “caps”) which are 1% for homesteads, 2% for non-homestead residential, and 3% for industrial and commercial – Impact will vary.



Fiscal Limits

- Property tax increases are controlled, or limited by the state statute.
- Controls are also known as “frozen levy”.
- Levy is not frozen, but increases are limited to the maximum amount allowed in the previous year plus a growth quotient – AVGQ (usually 2%-5%).
- There are exceptions to the controls such as debt service payments (bonds) and leases.
- Those exceptions could be substantial and eventually led to circuit breakers or tax caps.



Property Tax

- Facts about property tax:
- Property tax is “regressive”
 - That is it has no regard for income levels and is more harmful to those with lower incomes.
- Property owner has very little control over the amount of the tax or where it goes.
- Usually paid twice per year.
- Not paying the tax can result in the property owner losing the property to the county.



Property Tax

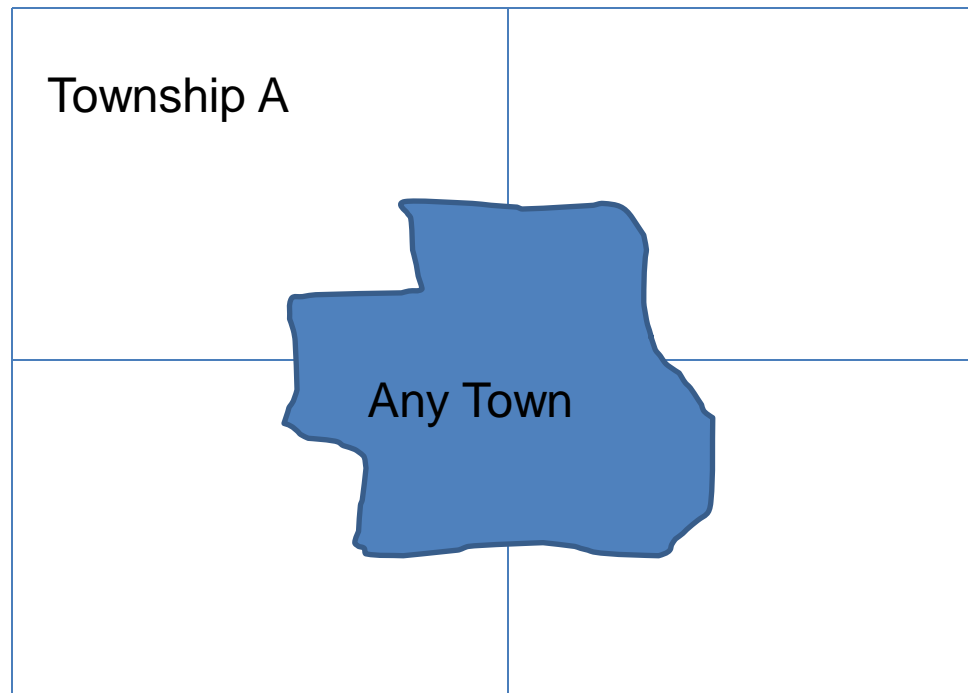
- Amount of property tax is based on the assessed value of property and the tax rate charged:
 - $\text{Tax Levy} = \text{Tax Rate} \times (\text{AV}/100)$
- The combination of property tax rates a property owner is charged depends on the location of the property.



Property Tax

- Example 1:

A property located in Any Town is also located in a county, a township, a school district, a library district, and possibly other units jurisdictions. That combination of units determines the total tax rate.



Location. Location. Location.



Property Tax Rates

- Property Tax rates are charged by numerous local governments*:

| | <u>Any Town Tax District</u> |
|-------------------|------------------------------|
| • County | 0.6650 |
| • Any Town | 0.7700 |
| • Township | 0.1400 |
| • Any Town School | 1.5400 |
| • Libraries | 0.1400 |
| • Other | 0.2450 |
| • Total | 3.5000 |
- * Rates vary depending upon the location of the property.



Property Tax Bills

Example 1:

- Gross Assessed Value \$150,000
- Less Homestead Deduction 45,000
- Less Supplemental Homestead (35%) 36,750
- Less Mortgage Deduction 3,000
- Net Assessed Value \$ 65,250

- Tax Rate (per \$100) 3.5000
- Taxes \$ 2,284

- Circuit Breaker Calculation (Gross AV times 1%) \$ 1,500
- Circuit Breaker Credit = (\$2,284 - \$1,500 =) \$ (784)

- Taxpayer saves \$784 per year due to Circuit Breaker



Circuit Breakers

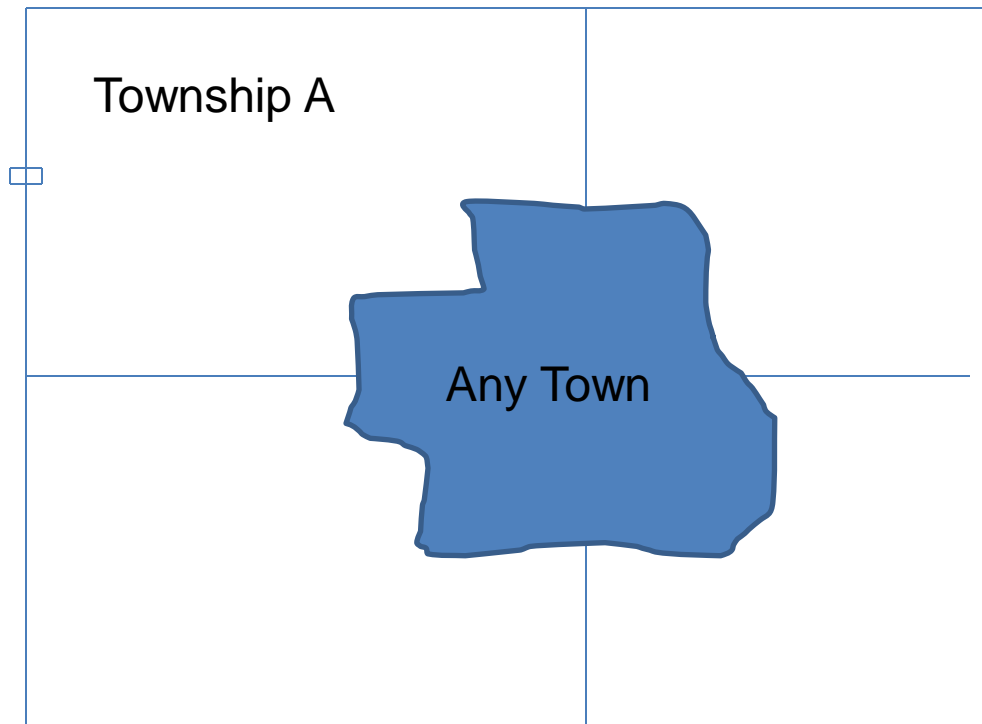
- Important Points Regarding Circuit Breakers:
 - Circuit Breakers are protections for property taxpayers.
 - Overwhelmingly approved by voters.
 - Governments that experience Circuit Breaker Credits will have reduced property tax collections.
 - Reductions are allocated proportionately to all funds that levy property taxes.
 - Tax revenues reduced by Circuit Breaker Credits cannot be recovered by other property taxes.
 - Tax increases approved by voter referendum are exempt from Circuit Breaker calculation.



Property Tax

Example 2:

In this example the same property is located outside of town limits and in a different school district. All other taxing units are the same.





Property Tax Rates

- Property Tax rates are charged by numerous local governments*:Township Tax District
 - County 0.6650
 - Any Town 0.0000
 - Township 0.1400
 - Township School 1.0000
 - Libraries 0.1400
 - Other 0.2450
 - Total 2.1900
- * Rates vary depending upon the location of the property.



Property Tax Bills

- Example 2:
 - Gross Assessed Value \$150,000
 - Less Homestead Deduction 45,000
 - Less Supplemental Homestead (35%) 36,750
 - Less Mortgage Deduction 3,000
 - Net Assessed Value \$ 65,250
- Tax Rate (per \$100) 2.1900
- Taxes \$ 1,429
- Circuit Breaker Calculation (Gross AV times 1%) \$ 1,500
- Circuit Breaker Credit = (\$1,429 - \$1,500 =) \$ 0
- Taxpayer is \$71 below Circuit Breaker threshold



Property Tax Reform

- Indiana restructured property taxes in 2009.
- In 2002 assessment of property changed from “true tax basis” to “market value in use basis.” Resulted from the loss of a tax court case (Town of St. John’s in Lake County) challenging the assessment practice.
- Property values had a dramatic shift, especially on homeowners.
- Many units of local governments also increased their tax rates hoping to hide the increases in the reassessment.



Property Tax Reform

- Beginning with 2009 budgets, rates, and levies, the state assumed the cost of several services that traditionally had been paid by property tax:
 - Family & Children Services (Welfare),
 - School Operating Funds,
 - Pre-School Special Education,
 - Pre-1977 Police & Fire Pension costs,
 - Cost to counties for housing juveniles in state facilities,
 - State Fair & State Forestry, and
 - State added a new homestead deduction of 35% of residual AV but repealed HSRC and PTRC.



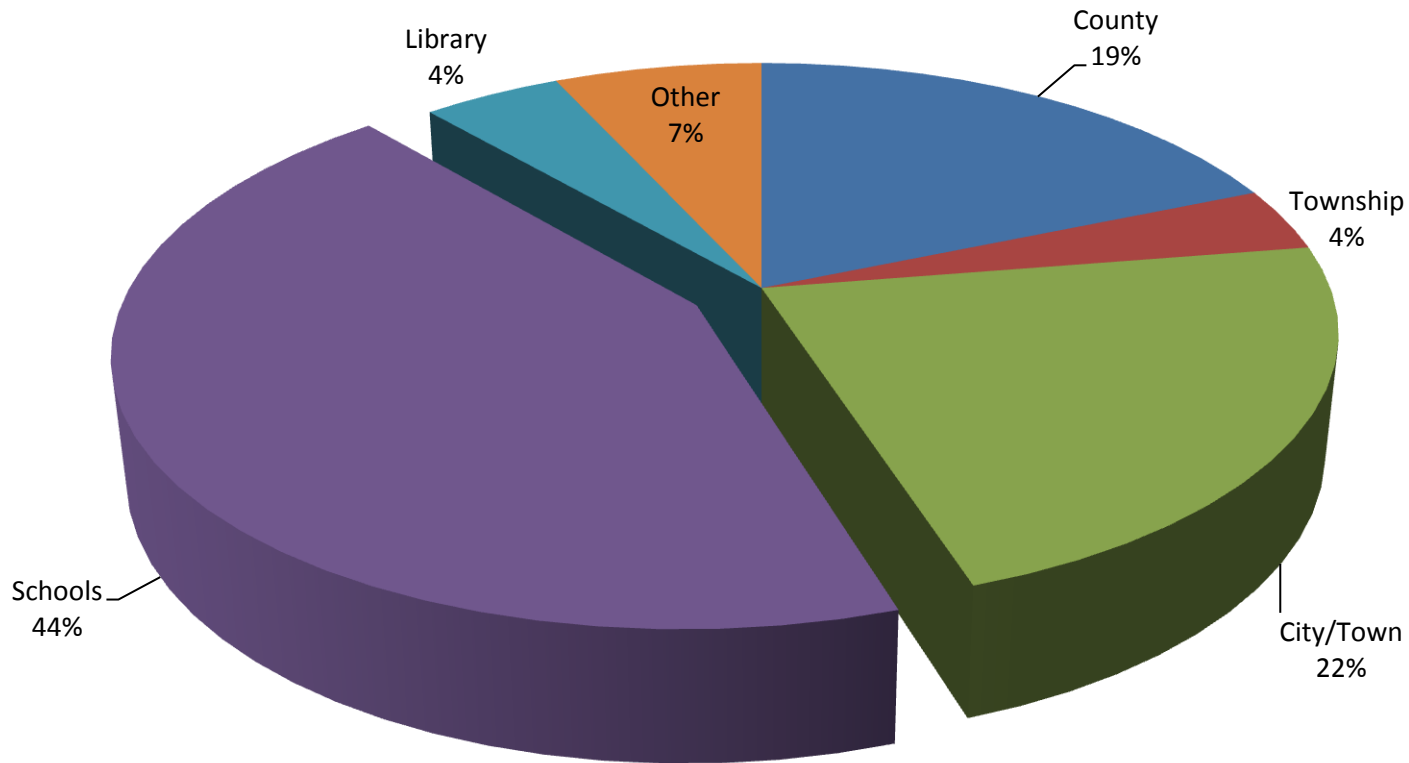
Impact of Property Tax Reform

- Transferring those costs to the state moved a large portion of the property tax burden to the sales tax.
- Property tax levies to pay for those services were “volatile”.
- Transfer resulted in approximately 30% reduction in property tax levy state-wide.
- Reduced property tax burden means circuit breakers only affect around 1/3 of property taxpayers – mostly in larger urban areas.
- Beginning of circuit breaker credits.



Where Property Taxes Go

(Based on 2010 Property Tax Rates After Tax Reform)





Gross to Net AV's



Gross to Net AV

- More Terms:
 - Abstract Assessed Value – The actual value used to create tax bills. Changes to assessments after AV is certified can cause abstract AV to differ from certified AV.
 - Personal Property – Tangible property not permanently affixed to and a part of real estate. Includes business depreciable property and mobile homes.
 - Real Property – Land and improvements considered permanent fixtures. Gaming riverboats are also assessed as real property.



Gross to Net AV

- And More Terms:
 - Credits – A property tax credit reduces a property owners net property tax liability.
 - Deductions – A property tax deduction reduces the taxable assessed value of property, resulting in the net assessed value amount.
 - Exemptions – Specific category of property that is not included in the tax base. An exclusion of part or all of the value of a category of property from taxation. Generally determined according to the type of owner of the property or the purpose for which the property is used.



Deductions

- Mortgage – Mortgaged real property or mobile homes. Deduction is up to \$3,000 per person. Limits apply.
- 65 or Older – Real property or mobile home residence of persons 65 or older. Lesser of $\frac{1}{2}$ of gross AV or \$12,480 (can zero out tax bill!)
 - Combined adjusted gross income of applicants cannot exceed \$25,000 and AV cannot exceed \$182,430.
- Over 65 Circuit Breaker – Prevents recipient's homestead tax liability from increasing by more than 2% over previous year.



Deductions

- Homestead Standard Deduction – Owner (or buyer) occupied primary residence. Amount of deduction is the lesser of \$45,000 or 60% of gross AV. Property must be the applicant's principal place of residence.
- Supplemental Standard Deduction – Automatic for those who receive homestead standard deduction. Applies to net AV after standard deduction but before other deductions. Deduction is 35% of first \$600,000 net AV; 25% of net AV over \$600,000.



Deductions

- Other Deductions available:
 - Rehabilitation
 - Solar Energy
 - Wind Powered devices
 - Hydro-electric power device
 - Geothermal
 - Economic Revitalization Area (Abatements)



Role of Assessors in Property Tax System

1. Providers of Property Tax Data

- Information is available to public to examine and question. The information is the gross values of the property tax base.

2. Interpreter of Property Tax Data

- Explain methodology used to arrive at the values.

3. Advisor regarding tax policy

- Explain how decisions of fiscal body could affect the tax base.



The Role of County Auditors and Auditor of State



Role of County Auditors

County Auditor Duties and Responsibilities:

1. Maintain real estate ownership records (transfer books) and plat books of all real property in the county.
2. Provide all forms and records required to be furnished to assessing officials in the performance of their duties.
3. Maintain property records and account for all real and personal property assessments and most important, to see that assessments, when filed by assessing officials are not reduced or otherwise changed unless applicable statutory procedures are observed.



Role of County Auditors

4. To receive and act upon all applications for age 65, blind, veterans', and other deductions to determine the eligibility of each applicant and the amount to be allowed.
5. Prepare the tax duplicate and enter all taxes therein for collection by the county treasurer; also, enter all penalties and account for all taxes and penalties returned unpaid.



Role of County Auditors

6. Audit the tax duplicate and after each semiannual tax payment date, make settlement with the county treasurer, and distribute all taxes to the respective governmental units for which taxes were collected.
- County auditor plays a most important part of accounting for assessments and taxes collected and seeing that the tax laws are properly administered.



Role of County Auditors

- Goal: Accurate, compliant reports of property values and taxes charged and collected.

Three reports done annually:

1. Abstract in March
2. Spring Settlement in June
3. Fall Settlement in December



Role of County Auditors

Tax Duplicate

- Auditor of each county shall, before March 15 of each year, prepare a roll of property taxes payable in that year for that county. This roll shall be known as the “Tax Duplicate” and shall show:
 1. The value of all the assessed property of the county;
 2. The person liable for the taxes on the assessed property; and
 3. Any other information that the State Board of Accounts, with the advice and approval of the Department, may prescribe.



Role of County Auditor

Notice to Taxpayers

- County auditor delivers the Tax Duplicate to Auditor of State and the county treasurer on or before March 15 of each year.
- Immediately upon receipt, the county treasurer shall give notice to taxpayers of the tax rate per \$100 of assessed value to be collected in the county for each purpose and the total rates in each tax district.
- This notice is advertised three times with each advertisement one week apart. The first notice must be at least 15 days before taxes are due.



Role of Auditor of State

- Goals:
 - Confirm data entry
 - Understand changes in assessed values
 - Standardize statewide reporting
- Methodology:
 - Data comparisons
 - Variance analysis
 - Explanations



Role of Auditor of State

- Tools:
 - Abstract and Settlement Checklists
 - Settlement Manuals (Spring and Fall)
 - Settlement Instructions
 - Abstract Manuals (Each year)
 - Newsletters
 - Numerous reports
 - Certifications of various miscellaneous revenue distributions (license excise, CVET, MVH, cigarette tax, riverboat, FIT)



Legislation



Legislation

- HEA 1264 concerns internal accounting controls. Eff. June 30, 2016. Adds Chapter 23 directing volunteer firefighters of a unit that also serve on the city, town, or township fiscal body of that fire department to abstain from voting on the budget and tax levies. If a majority of the fiscal body are precluded from voting, executive may petition to county fiscal body to conduct a public hearing and adoption meeting.



Legislation

- HEA 1388 Changes debt service fund balance calculations. (Approx. 50% old, 15% new)
- HEA 1475 – Effective July 1, 2015
 - A county council or county income tax council may adopt an ordinance to impose a public safety income tax rate without also adopting a LOIT Levy Freeze or LOIT for Property Tax Relief rate.



Legislation

- HEA 1485 – Effective July 1, 2015
 - Combines the three separate local income taxes (CAGIT, COIT, CEDIT) into one local income tax starting in 2017.
 - OMB and applicable State agencies must prepare a transition report by November 1, 2015.
 - The report must document all terms, conditions, limitations, and obligations that exist for current LOITs.



Legislation

- SEA 251 – Effective July 1, 2015
 - A person that owns property or is registered to vote within a political subdivision may file a petition with the Department objecting that a political subdivision has artificially divided a capital project into multiple capital projects in order to avoid the requirements of petition/remonstrance or referendum.



Legislation

- SEA 251 – Effective July 1, 2015
 - The petition must be filed not more than 10 days after the political subdivision makes the preliminary determination to issue the bonds or enter into the lease for the project.
 - The Department shall make a final determination on the issue not later than 30 days after receiving the petition.



Legislation

- SEA 567 – Effective January 1, 2016
 - Changes the date of the redevelopment commissioner treasurer report from before July 1 to before April 1.
 - Fiscal officer of the unit serves as the redevelopment commission treasurer.



Legislation

- SEA 567 – Effective January 1, 2016
 - Changes date by which redevelopment commissions must notify the county auditor and other taxing units of excess (TIF surplus) AV from before July 15 to before July 1.
 - Notice must also be filed electronically with the Department.



Legislation

- SEA 436 – Effective March 1, 2014
 - For the 2014 assessment date and future assessment dates, real property that is:
 - A limited market or special purpose property (commonly referred to as a big box retail building);
 - At least 50,000 square feet; and
 - Occupied by the original owner or tenant.
 - Improvements with an effective age of 10 years or less shall be assessed based on the cost approach, less depreciation and obsolescence.



Legislation

- SEA 436 – Effective March 1, 2014
 - Land value shall be assessed separately.
 - If a taxpayer requests a review of improvements with an effective age of 10 years or less, the taxpayer must provide information on the actual construction costs.
 - If the actual construction costs are greater than the value derived from the cost approach, the AV of the improvements shall be the actual costs less depreciation and obsolescence.



Legislation

- SEA 436 – Effective January 1, 2015
 - The agricultural land base rate for the March 1, 2015 assessment date is \$2,050 per acre.
 - For the 2016 assessment date and future years, the base rate is equal to the prior year base rate multiplied by the assessed value growth quotient.



Legislation

- HEA 1603 – Effective January 1, 2016
 - The fiscal officer of a taxing unit may establish a property tax assessment appeals fund to hold property tax receipts that are attributable to an increase in the taxing unit's tax rate caused by the allowed AV withholding in IC 6-1.1-17-0.5.



Legislation

- HEA 1603 – Effective January 1, 2016
 - Money in the property tax assessment appeals fund may only be used to pay:
 - Expenses incurred by a county assessor in defending appeals with respect to property located in the taxing district.
 - Refunds due from appeals.



Legislation

- HEA 1603 – Effective January 1, 2016
 - The balance in the property tax assessment appeals fund may not exceed 5% of the amount budgeted by a taxing unit for a particular year.
 - Money in this fund is not considered miscellaneous revenue. The balance in this fund is to be disregarded when determining tax levies and rates.



Legislation

- HEA 1603 – Effective January 1, 2016
 - The county assessor shall quarterly send a notice to the fiscal officer of each taxing unit affected by an appeal, including the fiscal officer of an affected redevelopment commission.
 - The notice may be provided in an electronic format.



Legislation

- HEA 1603 – Effective January 1, 2016
 - The notice must include:
 - The date on which a notice for review was filed.
 - The name and address of the taxpayer who filed the notice for review.
 - The AV for the assessment date the year before the appeal and the AV on the most recent assessment date.
 - The status of the appeal.



Legislation

- SEA 436 – Effective upon passage
 - Applies to any refund for a property resulting from an appeal for the 2014 assessment date or any prior assessment date, not already paid as of May 1, 2015.
 - If the refund is \$100,000 or more, the county auditor may, instead of a refund, elect to apply credits in equal installments to future property tax installments for the property over a period of not more than 5 years.
 - The auditor may elect to accelerate credits to provide a full or partial refund within the 5 year period.



Legislation

- SEA 330 – Effective July 1, 2015
 - For annexations adopted after June 30, 2015, agricultural land is exempt and remains exempt from the municipal taxes while assessed as agricultural land.
 - IMPLEMENTATION – The preferred approach is to place these properties into their own taxing district which is clearly labeled as “Municipal Tax Exempt”.



Legislation

- HEA 1495 – Effective July 1, 2015
 - Changes the responsibility for publishing the notice of the tax rates from the county treasurer to the county auditor.



For More Information

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- News releases from the Department
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- Contact the DLGF
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 - <http://www.in.gov/dlgf/2338.htm>